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BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 97-003-E - ORDER NO. 97-267

MARCH 31, 1997

IN RE: Annual Review of Base Rates for Fuel Costs of Carolina Power & Light Company.	)))	ORDER APPROVING BASE RATES FOR FUEL COSTS

On March 19, 1997, the Public Service Commission of South Carolina ("the Commission") held a public hearing on the issue of the recovery of the costs of fuel used in the sale of electricity by Carolina Power & Light Company ("CP&L" or "the Company") to provide service to its South Carolina retail electric customers. The procedure followed by the Commission is set forth in S.C. Code Ann. §58-27-865 (Supp. 1996). The review of this case is from January 1996 through December 1996.

At the public hearing, William F. Austin, Esquire, and Len S. Anthony, Esquire, represented CP&L; Elliott F. Elam, Jr., Esquire, represented the Intervenor, the Consumer Advocate for the State of South Carolina ("the Consumer Advocate"); and Florence P. Belser, Staff Counsel, represented the Commission Staff. The record before the Commission consists of the testimony of Kevin B. Cardwell, Randy Wilkerson, and Ronald R. Penny on behalf of CP&L; the testimony of Jacqueline R. Cherry and Raymond C. Sharpe, III on behalf of the Commission Staff; and six (6) hearing exhibits.

Based upon the evidence of the record, the Commission makes the following findings of fact and conclusions of law:

FINDINGS OF FACT

1. The record of this proceeding indicates that for the period from January 1996 through December 1996 CP&L's total fuel costs for its electric operations amounted to $530,599,597. Hearing Exhibit No. 5, Accounting Exhibit E.

2. Staff reviewed and compiled a percentage generation mix statistic sheet for CP&L's fossil, nuclear, and hydroelectric plants for January 1996 through December 1996. The fossil generation ranged from a high of 63.40% in October to a low of 40.47% in April. The nuclear generation ranged from a high of 57.25% in April to a low of 34.78% in September. The percentage of generation by hydro ranged from a high of 2.97% in February to a low of 0.76% in July. Hearing Exhibit No. 6, Utilities Department Exhibit No. 3.

3. During the January 1996 through December 1996 period, coal suppliers delivered 10,234,763.03 tons of coal. The Commission Staff's audit of CP&L's actual fuel procurement activities demonstrated that the average monthly received cost of coal varied from $39.93 per ton in January to $45.08 per ton in December. Hearing Exhibit No. 5, Accounting Exhibit A.

4. According to CP&L's witness Randy Wilkerson, the performance of CP&L's nuclear units equals or exceeds that of comparable facilities as demonstrated thusly:

CP&L system actual capacity factors -

CP&L data for PWRs January 1996-December 1996	92.4%	1 unit refueled
CP&L data for BWRs January 1996-December 1996	81.6%	2 units refueled

National average capacity factors -

NERC data for PWRs 5 year 1991-1995	75.1%
NERC data for BWRs 5 year 1991-1995	64.0%

5. Staff collected and reviewed certain generation statistics of major CP&L plants for the twelve months ending December 31, 1996. Hearing Exhibit No. 6, Utilities Department Exhibit 4. The nuclear fueled Harris Plant had the lowest average fuel cost at 0.43 cents per kilowatt-hour. The highest amount of generation was 12,595,757 megawatt-hours produced at the coal fueled Roxboro Plant.

6. The Commission Staff conducted an extensive review and audit of CP&L's fuel purchasing practices and procedures for the subject period. The Staff's accounting witness, Jacqueline R. Cherry, testified that CP&L's fuel costs were supported by the Company's books and records. Testimony of Cherry; Hearing Exhibit No. 5, Accounting Department Exhibits.

7. The Commission recognizes that the approval of the currently effective methodology for recognition of the Company's fuel costs requires the use of anticipated or projected costs of fuel. The Commission further recognizes the fact inherent in the utilization of a projected average fuel cost for the establishment

of the fuel component in the Company's base rates that variations between the actual costs of fuel and projected costs of fuel would occur during the period and would likely exist at the conclusion of the period. S.C. Code Ann. §58-27-865 (Supp. 1996) establishes a procedure whereby the difference between the base rate fuel charges and the actual fuel costs would be accounted for by booking through deferred fuel expenses with a corresponding debit or credit.

8. The record of this proceeding indicates that the comparison of CP&L's fuel revenues and expenses for the period January 1996 through December 1996 produces an over-recovery of $186,139. Staff added the projected over-recovery of $442,338 for the month of January 1997, the projected over-recovery of $1,321,374 for the month of February 1997, and the projected over-recovery of $2,088,722 for the month of March 1997 to arrive at a cumulative over-recovery of $4,038,573 as of March 1997.[1] Testimony of Cherry, pp. 5-6.

9. CP&L's projected average fuel expense for the period of April 1997 through March 1998 is 1.122 cents per kilowatt-hour. This projected fuel expense includes an adjustment for the

1. The Company's cumulative over-recovery, as reflected in its prefiled testimony, as of December 1996 totaled $87,610 and as of March 1997 totaled $3,940,045. The difference between the Company's and the Staff's cumulative over-recovery as of December 1996 (actual) is $98,529 and the difference as of March 1997 (estimated) is $98,528. The cumulative difference as of December 1996 of $98,529 is based on Staff's calculation adjustments to the Company's Purchased Power Costs for March 1996 and for August 1996 through October 1996. The difference between the December 1996 cumulative difference of $98,529 and the March 1997 cumulative difference of $98,528 is based on rounding.

projected over-recovery at March 1997. Penny Testimony, p. 3.

10. Company witness Penny proposed that the Commission adopt a fuel factor of 1.122 cents per kilowatt-hour for the next twelve-month period. Penny Testimony, pp. 3-4.

11. Hearing Exhibit No. 6 reveals that using the currently projected sales and fuel cost data and the cumulative over-recovery of $186,139 through December 1996, the average projected fuel expense is estimated to be 1.1215 cents per kilowatt-hour for the twelve months ending March 1998. Applying this fuel factor of 1.1215 cents per kilowatt-hour would produce an estimated over-recovery of $11,175 for the next twelve month period. The currently approved fuel factor is 1.340 cents per kilowatt-hour. Applying the currently approved fuel factor of 1.340 cents per kilowatt-hour would produce an estimated over-recovery of $15,375,972 for the next period. Hearing Exhibit No. 6, p. 6 and Utilities Department Exhibit 10.

12. During the period under review, Brunswick Unit 1, Brunswick Unit 2, and Robinson Unit 2 were down for refueling during some portion of the period. The nuclear units operated well during the period under review. All outages were reviewed by Staff (Hearing Exhibit No. 6, Utilities Department Exhibit 2A), and a determination was made by Staff as to the prudence of the outages. Staff determined that there were no Company actions which required CP&L's customers to incur higher fuel costs. Therefore, no disallowances of any fuel costs during the review period were recommended. Staff also examined records and determined that CP&L had achieved an adjusted capacity factor,

which excluded outage time required by the Nuclear Regulatory Commission (NRC) due to the two 1996 hurricanes and which excluded time down for reasonable refueling outages, of 96.8%. Testimony of Sharpe, pp. 3-4.

CONCLUSIONS OF LAW

1. Pursuant to S.C. Code Ann.,§58-27-865(B)(Supp. 1996), each electrical utility must submit to the Commission its estimates of fuel costs for the next twelve (12) months. Following an investigation of these estimates and after a public hearing, the Commission directs each electrical utility "to place in effect in its base rate an amount designed to recover, during the succeeding twelve months, the fuel costs determined by the Commission to be appropriate for that period, adjusted for the over-recovery or under-recovery from the preceding twelve-month period." Id.

2. S.C. Code Ann., Section 58-27-865(G) (Supp. 1996) requires the Commission to allow electrical utilities to recover "all their prudently incurred fuel costs... in a manner that tends to assure public confidence and minimize abrupt changes in charges to consumers."

3. As stated by the Supreme Court in Hamm v. South Carolina Public Service Commission, 291 S.C. 178, 352 S.E.2d 476, 478 (1987), Section 58-27-865(F) requires the Commission "to evaluate the conduct of the utility in making the decisions which resulted in the higher fuel costs. If the utility has acted unreasonably, and higher fuel costs are incurred as a result, the utility should not be permitted to pass along the higher fuel costs to its

customers." "[T]he rule does not require the utility to show that its conduct was free from human error; rather it must show it took reasonable steps to safeguard against error." Id. at 478, citing Virginia Electric and Power Co. v. The Division of Consumer Council, 220 Va. 930, 265 S.E.2d 697 (1980).

4. The Commission recognizes that Section 58-27-865(F) provides it with the authority to consider the electrical utility's reliability of service, its economical generation mix, the generating experience of comparable facilities, and its minimization of the total cost of providing service in determining to disallow the recovery of any fuel costs.

5. Further, S.C. Code Ann. §58-27-865 (F) (Supp. 1996) provides that

> [t]here shall be a rebuttable presumption that an electrical utility made every reasonable effort to minimize cost associated with the operation of its nuclear generation facility or system ... if the utility achieved a net capacity factor of ninety-two and one-half percent or higher during the period under review. The calculation of the net capacity factor shall exclude reasonable outage time associated with reasonable refueling, reasonable maintenance, reasonable repair, and reasonable equipment replacement outages; the reasonable reduced power generation experienced by nuclear units as they approach a refueling outage; the reasonable reduced power generation experienced by nuclear units associated with bringing a unit back to full power after an outage; Nuclear Regulatory Commission required testing outages unless due to the unreasonable acts of the utility; outages found by the [C]ommission not to be within the reasonable control of the utility; and acts of God. The calculation also shall exclude reasonable reduced power operations resulting from the demand for electricity being less than the full power output of the utility's nuclear generation system. If the net capacity factor is below ninety-two and one-half

> percent after reflecting the above specified outage time, then the utility shall have the burden of demonstrating the reasonableness of its nuclear operations during the period under review.

6. After considering the directives of §58-27-865 (B) and (G) which require the Commission to place in effect a base fuel cost which allows the Company to recover its fuel costs for the next twelve months adjusted for the over-recovery or under-recovery from the preceding twelve month period, in a manner which assures public confidence and minimizes abrupt changes in charges, the Commission has determined that the appropriate base fuel factor for April 1997 through March 1998 is 1.122 cents per kilowatt-hour. The Commission finds that a 1.122 cents per kilowatt-hour fuel component will allow CP&L to recover its projected fuel costs and, at the same time, prevent abrupt changes in charges to CP&L's customers.

IT IS THEREFORE ORDERED THAT:

1. The base fuel factor for the period April 1997 through March 1998 is set at 1.122 cents per kilowatt-hour.

2. CP&L shall file an original and ten (10) copies of the Fuel Rider within ten (10) days of receipt of this Order.

3. CP&L shall comply with the notice requirements set forth in S.C. Code Ann., §58-27-865(A)(Supp. 1996).

4. CP&L shall continue to file the monthly reports as previously required.

5. CP&L shall account monthly to the Commission for the differences between the recovery of fuel costs through base rates and the actual fuel costs experienced by booking the difference to

unbilled revenues with a corresponding deferred debit or credit.

6. CP&L shall submit monthly reports to the Commission of fuel costs and scheduled and unscheduled outages of generating units with a capacity of 100 MW or greater.

7. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

CHAIRMAN

ATTEST:

Executive Director

(SEAL)